THE INNOVATIVE TECHNOLOGY AUTHORITY
INCLUDING ITS BLENDED COMPONENT UNIT
CENTER FOR INNOVATIVE TECHNOLOGY
Herndon, Virginia

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2007

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Innovative Technology Authority, including its blended component unit, the Center for Innovative Technology, for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in all material respects;
- no material weaknesses in internal control over financial reporting; and
- no instances of noncompliance or other matters required to be reported.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The following is a discussion and analysis of the Innovative Technology Authority's (Authority) financial performance, including an overview of activities for the fiscal year ended June 30, 2007. The Authority is a political subdivision of the Commonwealth of Virginia (Commonwealth). Its mission is to accelerate Virginia's next generation of technology and technology companies. The Center for Innovative Technology (CIT) is a non-stock, not-for-profit corporation, which acts as the operating arm of the Authority and is a blended component unit of the Authority. Transactions are accounted for in enterprise funds and reports have been prepared on the accrual basis of accounting.

Financial Analysis

Net Assets as of June 30, 2007
(With comparative figures for June 30, 2006)

Assets:	2007	2006	Change
Current assets	$ 7,452,900	$ 8,510,385	$ (1,057,485)
Noncurrent assets	61,257	70,222	(8,965)
Capital assets	24,609,488	25,175,510	(566,022)
Total assets	32,123,645	33,756,117	(1,632,472)
Liabilities:			
Current liabilities	2,897,103	2,942,586	(45,483)
Long-term liabilities	6,270,000	7,145,000	(875,000)
Total liabilities	9,167,103	10,087,586	(920,483)
Net assets:			
Invested in capital assets, net of related debt	17,525,745	17,240,510	285,235
Unrestricted net assets	4,930,797	6,428,021	(1,497,224)
Restricted net assets, expendable	500,000	-	500,000
Total net assets	$ 22,956,542	$ 23,668,531	$ (711,989)

The total combined current assets of the Authority and CIT decreased by $1,057,485 from last year primarily due to an increase in operating expenses, as planned for in CIT's operating budget.

The decrease in long-term liabilities of $875,000 reflects a principal payment of $790,000 and a $85,000 increase in the current portion of the outstanding bonds payable.

The increase in restricted net assets is related to the GAP BioLife Fund launched during fiscal year 2007. The GAP BioLife Fund is a seed stage venture fund to support emerging life science companies in Virginia. The fund is comprised of a $250,000 grant from Johnson & Johnson Services, Inc., matched by CIT, for a total $500,000 fund. There were no expenditures from this fund in fiscal year 2007.

Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended June 30, 2007
(With comparative figures for June 30, 2006)

	2007	2006	Change
Operating revenue:			
Rental income	$ 3,206,539	$ 3,147,394	$ 59,145
Federal awards	3,767,405	2,498,304	1,269,101
Other business	479,993	365,567	114,426
VA initiatives - COVITS sponsorships and registration	600,685	701,566	(100,881)
Total revenue	8,054,622	6,712,831	1,341,791
Expenses:			
CIT expenses	12,482,211	10,009,251	2,472,960
Building and ITA administrative expenses	1,524,663	1,507,871	16,792
Depreciation and amortization	886,536	870,098	16,438
Total expenses	14,893,410	12,387,220	2,506,190
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia	6,280,998	6,087,085	193,913
Non-operating income	-	1,042	(1,042)
Interest income	373,546	321,193	52,353
Gain on investment	50,000	253,218	(203,218)
Interest expense - bonds	(577,745)	(637,661)	59,916
Total non-operating revenue	6,126,799	6,024,877	101,922
Change in net assets	(711,989)	350,488	(1,062,477)
Net assets at July 1, beginning fiscal year	23,668,531	23,318,043	350,488
Net assets at June 30, ending fiscal year	$ 22,956,542	$ 23,668,531	$ (711,989)

Federal revenue increased by $1,269,101 over last year predominately due to increased federal award activity with the National Oceanic and Atmospheric Administration (NOAA) and the Institute for Defense and Homeland Security's (IDHS) Remote Presence and Environmental Bioterrorism Detection programs.

During fiscal year 2007, CIT adopted the full-cost accounting method and is unable to report detailed comparative CIT expenses due to significant changes in reporting classifications. The increase of $2,472,960 in CIT expenses is primarily due to $500,000 in salary increases and an increase in Connect program personnel; a $400,000 increase in GAP investments; and a $1.4 million increase in federal award activity with NOAA and IDHS. The NOAA award is a multi-year grant and, in fiscal year 2007, there was an increased effort to accelerate completion of work started in prior fiscal years. For IDHS, also a multi-year award, there was increased program development costs associated with Phase II, which was implemented during fiscal year 2007.

The decrease of $203,218 associated with the gain on investment category is the result of the following transactions. In fiscal year 2006, there was a $253,218 gain on investment due to the sale of Stereotaxis, Inc. stock. In fiscal year 2007, there was a $50,000 gain on investment recognized as the result of a $100,000 repayment on a Growth Acceleration Program $50,000 notes receivable.

Capital Assets and Debt Administration

Capital Assets

Capital Assets as of June 30, 2007
(With comparative figures for June 30, 2006)

	2007	2006	Change
Land and land improvements	$ 7,944,997	$ 7,944,997	$ -
Building (net of depreciation)	16,640,449	17,228,431	(587,982)
Furniture, fixtures and equipment (net of depreciation)	24,042	2,082	21,960
Total capital assets	$ 24,609,488	$25,175,510	$ (566,022)

The Authority invested $292,549 in capital assets for the building and $19,000 for CIT operations during fiscal year 2007. The cost was offset by $877,571 of depreciation.

Debt Administration

At year-end, the Authority had $7,145,000 of taxable lease revenue bonds outstanding. In 1989, bonds were issued originally for $13,300,000 to finance the construction of the System and Software Consortium, Inc. (SSC) portion of the Authority building located in Herndon, Virginia. On May 1, 1997, Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of the outstanding 1989 Series. More information about the outstanding principal and interest cost requirements of these bonds is detailed in Note I in the Notes to the Financial Statements.

A lease between the Commonwealth and the Authority secures the outstanding bonds. This lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance cost of the SSC portion of the building. In turn, the Commonwealth has a sublease with SSC.

FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2007

ASSETS	
Current assets:	
Cash and cash equivalents (Note B)	$ 3,189,107
Short-term investment, at cost (Note B)	2,999,216
Accrued interest receivable, prepaid expenses and deposits	222,167
Accounts and accrued receivables (Note C)	1,042,410
Notes receivable (Note D)	1,200,000
Less: allowance for bad debts (Note D)	(1,200,000)
Total current assets	7,452,900
Noncurrent assets:	
Unamortized expense of bond issue	61,257
Capital assets (Note E):	
Land and land improvements	7,944,997
Building	27,129,666
Less: accumulated depreciation	(10,489,217)
Furniture, fixtures and equipment	903,827
Less: accumulated depreciation	(879,785)
Total capital assets	24,609,488
Total assets	32,123,645
LIABILITIES	
Current liabilities:	
Accrued interest payable	89,002
Compensated absences (Note G)	150,018
Accounts payable, accrued expenses and prepaid rental income	837,243
Due to Commonwealth of Virginia	831,152
Grants payable (Note H)	63,241
Bonds payable - short-term (Note I)	875,000
Security deposits	51,447
Total current liabilities	2,897,103
Long-term liabilities:	
Bonds payable (Note I)	6,270,000
Total liabilities	9,167,103

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF NET ASSETS
For the Year Ended June 30, 2007

NET ASSETS	
Investment in capital assets, net of related debt	17,525,745
Unrestricted net assets	4,930,797
Restricted net assets, expendable	500,000
Total net assets	$ 22,956,542

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	Direct Expenses	Indirect Expenses	Total
Operating Revenue:			
Rental income - lease revenue			$ 1,817,127
Rental income - bonds			1,389,412
Federal awards			3,767,405
Other business			479,993
Virginia initiatives-COVITS sponsorships and registrations			600,685
Total operating revenue			8,054,622
Operating Expenses:			
Program Expenses:			
Research and development	3,628,177	775,526	4,403,703
Entrepreneur	1,840,419	1,053,806	2,894,225
Connect	607,969	526,667	1,134,636
Broadband	453,279	260,955	714,234
Commonwealth support	723,041	227,938	950,979
Total program expenses	7,252,885	2,844,892	10,097,777
Other Expenses:			
Communications and marketing	326,215	216,036	542,251
Business development	488,779	716,677	1,205,456
Advocacy	344,948	122,324	467,272
Entertainment	3,394	866	4,260
Unapplied indirect	-	165,195	165,195
Administrative	-	366	366
Building expense	1,524,297	-	1,524,297
Depreciation and amortization	-	886,536	886,536
Total other expenses	2,687,633	2,108,000	4,795,633
Total operating expenses	9,940,518	4,952,892	14,893,410
Operating income/(loss)			(6,838,788)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia			6,280,998
Interest income			373,546
Gain on investment			50,000
Interest expense - bonds			(577,745)
Total non-operating revenue/(expenses)			6,126,799
Change in net assets			(711,989)
Net assets at July 1, 2006			23,668,531
Net assets at June 30, 2007			$ 22,956,542

The accompanying Notes to Financial Statements are an integral part of this statement.

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Rental income received	$ 3,203,222
Program money received	389,461
Federal awards money received	3,562,424
GAP funding money received	50,000
Cash receipts from COVITS sponsorships and registrations	600,685
Payments to GAP recipients	(950,000)
Payments to vendors	(8,880,183)
Payments to grantees	(623,643)
Payments to employees	(3,675,475)
Security deposits paid	(7,030)
Net cash provided/(used) by operating activities	(6,330,539)
Cash flows from non-capital financing activities:	
Appropriation received from the Commonwealth of Virginia	6,280,998
Net cash provided/(used) by non-capital financing activities	6,280,998
Cash flows from investing activities:	
Gain on investment	50,000
Purchase of short-term investment (net of discount)	(2,999,414)
Interest received	303,236
Net cash provided/(used) by investing activities	(2,646,178)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets - CIT	(19,000)
Acquisition and construction of capital assets - ITA	(257,234)
Cash payment made as deposit on capital asset	(3,934)
Cash payment to retire bond indenture	(790,000)
Payments for interest	(591,524)
Net cash provided/(used) for capital and related financing activities	(1,661,692)
Net increase/(decrease) in cash and cash equivalents	(4,357,411)
Cash and cash equivalents at July 1, 2006	7,546,518
Cash and cash equivalents at June 30, 2007	$ 3,189,107

Noncash investing and capital activities:
Amortized bond discount - $656
Capital asset additions included in accrued expenses - $35,315

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:	
Operating income/(loss)	$ (6,838,788)
Adjustments to reconcile operating income/(loss) to net cash:	
Depreciation and amortization	886,536
Changes in assets and liabilities:	
(Increase)/decrease in accounts and accrued receivables	(248,829)
(Increase)/decrease in prepaid expenses and deposits	22,560
Increase/(decrease) in accounts payable and accrued expenses	(72,065)
Increase/(decrease) in security deposits	(7,030)
Increase/(decrease) in grants payable	(243,410)
Increase/(decrease) in compensated absences	27,985
Increase/(decrease) in due to Commonwealth of Virginia	142,502
Net cash provided/(used) by operating activities	$ (6,330,539)

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statements include the accounts of the Innovative Technology Authority (the Authority) and its blended component unit, the Center for Innovative Technology (CIT). The Authority is a political subdivision of the Commonwealth, as authorized by the Innovative Technology Authority Act, Title 2.2, Chapter 22, Article 3 of the Code of Virginia. The Authority's mission is to accelerate the Commonwealth's next generation of technology and technology companies. The Innovative Authority Act provides for the Authority to form a non-stock corporation to carry out the mission of the Authority. CIT is the non-stock, not-for-profit corporation created for this purpose, and acts as the operating arm of the Authority. The Virginia General Assembly 2007 Session, Virginia Acts of Assembly Chapter 847 authorizes the Authority to transfer funds appropriated to it by the Commonwealth to CIT for use in realizing its mission.

The financial statements of the Authority, including its blended component unit CIT, are intended to present the financial position and the changes in financial position and cash flows on only that portion of the financial reporting entity of the Commonwealth that is attributable to the transactions of the Authority including its blended component unit CIT. Separate financial statements for the Authority and CIT can be found in the Supplementary Information section of the Annual Financial Statement report. A separate report is prepared for the Commonwealth that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises oversight authority. The Authority is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

Basis of Accounting: The financial statements of the Authority have been prepared on the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when a liability is incurred. The activities of the Authority are accounted for in an enterprise fund, used to account for governmental operations that are financed and operated in a manner similar to private business enterprises. Enterprise fund accounting is used when the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate.

Allocation Method: During fiscal year 2007, CIT adopted the full-cost allocation approach to allocate indirect costs among functions. CIT allocates indirect costs based on three rates: fringe, overhead, and general & administrative (G&A). The fringe and overhead are applied to functions based upon direct labor cost and G&A is applied to functions based upon total cost.

Capital Assets: Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is recorded on the straight-line basis over estimated useful lives of the assets ranging from two to forty years. The Authority uses a $3,000 cost value to determine the assets to capitalize.

Operating and Non-Operating Activity: Most of the financial activity of the Authority is related to operations. Operating activities are directly related to the Authority promoting the Commonwealth's economic growth through technology. Currently, non-operating activity relates to appropriations from the Commonwealth, investment activities such as interest income, and interest expense.

Income Taxes: The Authority is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - CASH AND INVESTMENTS

The Governmental Accounting Standards Board (GASB) issued Statement 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB 3, which modified previous disclosure requirements related to investment risk and became effective beginning for the fiscal year ended June 30, 2005. Required investment risk disclosures address credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk and foreign currency risk. The Statement also requires disclosures of custodial credit risk and foreign currency risk for depository accounts.

The investment policy of the Authority and CIT is established and monitored by the Board of Directors. The investment policies of the Authority and CIT comply with the Investment of Public Funds Act, Code of Virginia Section 2.2 4500. The investment policy establishes guidelines for securities the Authority and CIT invests its money in, including quality of investment, maturity, and investment yields.

Certain deposits and investments are maintained by the Authority and CIT or are represented by specific identifiable investment securities maintained by the Treasurer of Virginia, or are held by the Bank of New York or Bank of America. Cash and cash equivalents represent deposits and short-term investments with maturities of less than one year.

Deposits and investments held by the Bank of New York, as trustee, are accounted for in accordance with the provisions of the Master Indenture of Trust Agreement and the Supplemental Indenture of Trust Agreement between the Authority and the trustee.

Custodial Credit Risk: All deposits of the Authority and CIT, with the exception of the Bank of New York account, are maintained in accounts covered by federal depository insurance and collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia, as amended, which provides for an assessable multiple financial institution collateral pool. The Bank of New York (Trust Department) account is a portfolio of U.S. Treasury and repurchase agreements that are collateralized by U.S Treasury securities.

GASB 40 amends the requirements set out in GASB 3, by only requiring disclosure of uncollateralized deposits, and uninsured and unregistered securities held by a counterparty, or its trust department or agent but not in the government's name. The Authority and CIT had no investments exposed to custodial credit risk.

Credit Rate Risk: Disclosure of the credit quality rating is required for investments exposed to the risk an issuer or other counterparty will not fulfill its obligations. At June 30, 2007, the Authority and CIT had investments and ratings as shown in the chart below.

Concentration of Credit Risk: Disclosure of any one issuer is required when it represents five percent or more of total investments. At June 30, 2007, CIT held a Federal Home Loan Bank bond with a book value of $2,999,216.

Foreign Currency Risk: Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. The Authority and CIT had no foreign investments or deposits for 2007.

	Credit Rating	Carrying Amount	Fair Value
Cash equivalents:			
Cash		$ 105,392	$ 105,392
Federated Treasury Obligations Fund	AAAm	43,860	43,860
Local Government Investment Pool	AAAm	3,039,855	3,039,855
Total cash equivalents		$ 3,189,107	$ 3,189,107
Short-term investments (less than 1 year):			
Federal Home Loan Bank Bond	AAA	$ 2,999,216	$ 2,995,320

SHORT-TERM INVESTMENT

During fiscal year 2007, CIT purchased a discounted Federal Home Loan Bank Bond held in custody by Bank of America with a face value of $3,000,000 and maturity date of January 16, 2008.

NOTE C - ACCOUNTS AND ACCRUED RECEIVABLES

The Authority held accounts receivable totaling $15,988. CIT held accounts receivable totaling $834,309 for federal awards and miscellaneous receivables, $182,662 of accrued revenue for federal awards, and $9,451 of account receivable related to the Innovative Technology Foundation.

NOTE D - NOTES RECEIVABLE

During the last three fiscal years, CIT has entered into convertible note purchase agreements with 18 promising emerging companies under its Growth Acceleration Program (GAP). During fiscal year 2007, CIT piloted a similar program, Virginia South Technology Acceleration Pilot Program (TAP), focusing on technology companies in Southside and Southwest Virginia, and entered into convertible note purchase agreements with 2 companies. Under the GAP and TAP programs, promissory notes have a maturity date of one year, 18 months, or 24 months from issuance. Payment due at maturity is principal plus eight percent; however, in one instance, CIT has written a note with a ten percent coupon. In some cases, CIT has granted extensions as the notes have become due. At CIT’s option, CIT may convert the note into equity securities of the company, subject to the terms of the note.

During fiscal year 2007, one company paid CIT $50,000 in repayment of its note and an additional $50,000 that was recorded as gain on investment. The $50,000 gain resulted when the company was to be sold and a negotiated note extension stipulated the $50,000 note repayment and an additional $50,000 was due upon close of the sale. During fiscal year 2007, CIT converted the Visure Corp. and iNeoMarketing, Inc. notes into equity (see Note J). At June 30, 2007, CIT had $1,200,000 in notes receivable. Due to the risk involved with an emerging company, CIT has elected to set up an allowance of $1,200,000.

NOTE E - CAPITAL ASSETS

The Authority had the following capital asset activities during fiscal year 2007:

Account	Beginning Balance	Acquisitions or Additional Depreciation	Sales or Dispositions	Ending Balance
Land and land improvements	$ 7,944,997	$ -	$ -	$ 7,944,997
Building	26,843,947	285,719	-	27,129,666
Accumulated depreciation	(9,615,516)	(873,701)	-	(10,489,217)
Furniture, fixtures, and equipment	955,689	25,830	(77,692)	903,827
Accumulated depreciation	(953,607)	(3,870)	77,692	(879,785)
Total	$25,175,510	$(566,022)	$ -	$24,609,488

NOTE F - CONTINGENT LIABILITIES

At June 30, 2007, CIT had contingent liabilities related to two term sheets (letters of intent) for Growth Acceleration Program investments totaling $150,000. The term sheets state CIT’s intention to enter into a convertible note purchase agreement with the company, subject to certain conditions. The letters of intent expire 90 days after issuance. CIT has entered into a convertible note purchase agreement with one company in the amount of $100,000 subsequent to year-end. The remaining term sheet expired with no action subsequent to year-end.

NOTE G - COMPENSATED ABSENCES

It is CIT’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since CIT does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred. Each employee may carry 80 hours of annual leave forward to the following year.

NOTE H - GRANTS PAYABLE

Grants are awarded to Virginia colleges and universities for scientific research and to Virginia headquartered and operated companies to promote research and development. Cash is transmitted to the award recipients as needed to fund grant disbursements. The grants payable represents the balance of grant awards not paid at June 30, 2007.

NOTE I- BONDS PAYABLE

The Authority issued $12,455,000 of Taxable Lease Revenue Refunding Bonds on May 1, 1997, pursuant to a Master Indenture of Trust and First Supplemental Indenture of Trust between the Authority and Signet Trust Company, Richmond, Virginia, as Trustee (since transferred to the Bank of New York). The Series 1997 Bonds were issued by the Authority to advance refund $11,200,000 of outstanding 1989 Taxable Revenue Lease Bonds, Series 1989. The Commonwealth leases facilities from the Authority. The lease calls for the Commonwealth to pay rent equal to the bond payments, insurance, trustee fees, and maintenance costs of the System and Software Consortium (SSC) portion of the building. In turn, the Commonwealth has a sublease with SSC.

Balance July 1, 2006	Retirements	Balance June 30, 2007	Amount Due Within One Year
$7,935,000	$ 790,000	$7,145,000	$ 875,000

The following amortization schedule illustrates the Authority's principal and interest requirements for the Series 1997 Bonds.

Year Ending June 30,	Principal	Interest	Total
2008	$ 875,000	$ 534,013	$ 1,409,013
2009	855,000	470,050	1,325,050
2010	935,000	407,208	1,342,208
2011	1,015,000	336,896	1,351,896
2012	1,090,000	260,568	1,350,568
2013-2014	2,375,000	270,344	2,645,344
Total	$ 7,145,000	$ 2,279,079	$ 9,424,079

NOTE J - EQUITY POSITIONS

CIT holds equity positions in four start-up organizations obtained through CIT programs.

The first program is the CIT Intellectual Property program which is no longer in existence. Under this program, CIT licensed titles for technologies to start-up organizations in exchange for stock. CIT initially received the titles to these technologies from universities without cost to CIT. CIT obtained stock from several companies through this program; however, all but one of these companies (Hemodyne, Inc.) has gone out of business. Currently, CIT holds 35,003 shares of common stock in Hemodyne, Inc. This security is not traded on the open market and there is no cost basis to CIT. The equity position of this stock, therefore, has not been recorded on CIT assets since there is no clear assessment of the value at either cost or market.

The second program under which CIT has obtained equity positions in start-up companies is the Growth Acceleration Program. Under this program, CIT acquired 415,949 shares of preferred stock in Rollstream, Inc. during fiscal year 2006 and an additional 322,373 shares of Rollstream, Inc. preferred stock in fiscal year 2007. During fiscal year 2007, CIT acquired 8,054 shares of preferred stock in Visure Corp, and 27,121 shares of preferred stock in iNeoMarketing, Inc. These securities are not traded on the open market, and it is difficult to determine a market value without full company valuations. Since there is no clear assessment of value of these equity positions, CIT has not recorded the equity position of these stocks as assets.

NOTE K - RELATED PARTY TRANSACTIONS

The financial statements do not include the assets, liabilities, and net assets of the Innovative Technology Foundation. The Innovative Technology Foundation (ITF) is a non-stock, non-profit corporation. It was created in 1986 to promote and support economic and industrial development, encourage technological innovation, coordinate research and development capabilities of public and private institutions, and otherwise aid in the accomplishment of the mission of CIT. The majority of the directors of the Board are independent of the Authority and CIT. On June 30, 2007, ITF owed CIT $9,451 for legal and consulting fees paid on its behalf. At June 30, 2007, the ITF's unaudited net assets totaled $439,138.

NOTE L - EMPLOYEE BENEFITS

CIT has a defined contribution retirement plan covering substantially all employees. Under the plan, CIT makes contributions fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Pension expense for the plan totaled $477,494 in 2007 for payroll of $3,183,293.

NOTE M - RISK MANAGEMENT

The Authority and CIT are exposed to various risks of loss related to: torts, theft, or damage and destruction to assets, injuries to employees, and natural disasters. Risk management insurance includes general liability, property, and worker's compensation. The Authority is insured through the Commonwealth's Risk Management Program and CIT is insured through commercial insurance policies with Chubb Indemnity Insurance Company and Montgomery Mutual Insurance Company. CIT's health care plan is administered by Anthem.

SUPPLEMENTARY INFORMATION

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2007

	ITA	CIT	Eliminating Entry	Total
A S S E T S				
Current assets:				
Cash and cash equivalents	$ 509,768	$ 2,679,339	$ -	$ 3,189,107
Short-term investment, at cost	-	2,999,216		2,999,216
Accrued interest receivable, prepaid expenses and deposits	3,933	218,234	-	222,167
Accounts and accrued receivables	15,988	1,026,422	-	1,042,410
Notes receivable	-	1,200,000	-	1,200,000
Less: allowance for bad debts	-	(1,200,000)	-	(1,200,000)
Due from CIT	2,016,181	-	(2,016,181)	-
Total current assets	2,545,870	6,923,211	(2,016,181)	7,452,900
Noncurrent assets:				
Unamortized expense of bond issue	61,257	-	-	61,257
Capital assets:				
Land and land improvements	7,944,997	-	-	7,944,997
Building	27,129,666	-	-	27,129,666
Less: accumulated depreciation	(10,489,217)	-	-	(10,489,217)
Furniture, fixtures and equipment	903,827	-	-	903,827
Less: accumulated depreciation	(879,785)	-	-	(879,785)
Total capital assets	24,609,488	-	-	24,609,488
Total assets	27,216,615	6,923,211	(2,016,181)	32,123,645
LIABILITIES				
Current liabilities:				
Due to ITA	-	2,016,181	(2,016,181)	-
Accrued interest payable	89,002	-	-	89,002
Compensated absences	-	150,018	-	150,018
Accounts payable, accrued expenses and prepaid rental income	57,467	779,776	-	837,243
Due to Commonwealth of Virginia	831,152	-	-	831,152
Grants payable	-	63,241	-	63,241
Bonds payable - short term	875,000	-	-	875,000
Security deposits	51,447	-	-	51,447
Total current liabilities	1,904,068	3,009,216	(2,016,181)	2,897,103
Long-term liabilities:				
Bonds payable	6,270,000	-	-	6,270,000
Total liabilities	8,174,068	3,009,216	(2,016,181)	9,167,103

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF NET ASSETS
As of June 30, 2007

	ITA	CIT	Eliminating Entry	Total
NET ASSETS				
Investment in capital assets, net of related debt	17,525,745	-	-	17,525,745
Unrestricted net assets	1,516,802	3,413,995	-	4,930,797
Restricted net assets, expendable	-	500,000	-	500,000
Total net assets	$ 19,042,547	$ 3,913,995	$ -	$ 22,956,542

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	ITA	CIT	Total
Operating Revenue:			
Rental income - lease revenue	$ 1,817,127	$ -	$ 1,817,127
Rental income - bonds	1,389,412	-	1,389,412
Federal awards	-	3,767,405	3,767,405
Other business	-	479,993	479,993
Virginia initiatives-COVITS sponsorships and registrations	-	600,685	600,685
Total operating revenue	3,206,539	4,848,083	8,054,622
Operating Expenses:			
Program Expenses:			
Research and development	-	4,403,703	4,403,703
Entrepreneur	-	2,894,225	2,894,225
Connect	-	1,134,636	1,134,636
Broadband	-	714,234	714,234
Commonwealth support	-	950,979	950,979
Total program expenses	-	10,097,777	10,097,777
Other Expenses:			
Communications and marketing	-	542,251	542,251
Business development	-	1,205,456	1,205,456
Advocacy	-	467,272	467,272
Entertainment	-	4,260	4,260
Unapplied indirect	-	165,195	165,195
Administrative	366	-	366
Building expense	1,524,297	-	1,524,297
Depreciation and amortization	886,536	-	886,536
Total other expenses	2,411,199	2,384,434	4,795,633
Total operating expenses	2,411,199	12,482,211	14,893,410
Operating income/(loss)	795,340	(7,634,128)	(6,838,788)
Non-operating revenue/(expenses):			
Appropriations from the Commonwealth of Virginia	6,280,998	-	6,280,998
Interest income	25,604	347,942	373,546
Gain on investment	-	50,000	50,000
Interest expense - bonds	(577,745)	-	(577,745)
Total non-operating revenue/(expenses)	5,728,857	397,942	6,126,799
Income/(loss) before transfers	6,524,197	(7,236,186)	(711,989)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2007

	ITA	CIT	Total
Transfers and other changes:			
Transfer in/(out)	(6,280,998)	6,280,998	-
Transfer in/(out)	19,000	(19,000)	-
Net transfers and other changes	(6,261,998)	6,261,998	-
Change in net assets	262,199	(974,188)	(711,989)
Net assets at July 1, 2006	18,780,348	4,888,183	23,668,531
Net assets at June 30, 2007	$ 19,042,547	$ 3,913,995	$ 22,956,542

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

	ITA	CIT	Total
Cash flows from operating activities:			
Rental income received	$ 3,203,222	$ -	$ 3,203,222
Program money received	-	389,461	389,461
Federal awards money received	-	3,562,424	3,562,424
GAP funding money received	-	50,000	50,000
Cash receipts from COVITS sponsorships and registrations	-	600,685	600,685
Payments to GAP recipients	-	(950,000)	(950,000)
Payments to vendors	(1,819,594)	(7,060,589)	(8,880,183)
Payments to grantees	-	(623,643)	(623,643)
Payments to employees	-	(3,675,475)	(3,675,475)
Security deposits paid	(7,030)	-	(7,030)
Net cash provided/(used) by operating activities	1,376,598	(7,707,137)	(6,330,539)
Cash flows from non-capital financing activities:			
Appropriation received from the Commonwealth of Virginia	6,280,998	-	6,280,998
Operating transfers (out)/in	(6,280,998)	6,280,998	-
Operating transfers (out)/in	19,000	(19,000)	-
Net cash provided/(used) by non-capital financing activities	19,000	6,261,998	6,280,998
Cash flows from investing activities:			
Gain on investment	-	50,000	50,000
Purchase of short-term investment (net of discount)	-	(2,999,414)	(2,999,414)
Interest received	25,604	277,632	303,236
Net cash provided/(used) by investing activities	25,604	(2,671,782)	(2,646,178)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets - CIT	(19,000)	-	(19,000)
Acquisition and construction of capital assets - ITA	(257,234)	-	(257,234)
Cash payment made as deposit on capital asset	(3,934)	-	(3,934)
Cash payment to retire bond indenture	(790,000)	-	(790,000)
Payments for interest	(591,524)	-	(591,524)
Net cash provided/(used) for capital and related financing activities	(1,661,692)	-	(1,661,692)
Net increase/(decrease) in cash and cash equivalents	(240,490)	(4,116,921)	(4,357,411)
Cash and cash equivalents at July 1, 2006	750,258	6,796,260	7,546,518
Cash and cash equivalents at June 30, 2007	$ 509,768	$ 2,679,339	$ 3,189,107

Noncash investing and capital activities:
- Amortized bond discount - $656
- Capital asset additions included in accrued expenses - $35,315

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

	ITA	CIT	Total
Cash flows from operating activities:			
Reconciliation of operating income/(loss) to net cash provided/(used) by operating activities:			
Operating income/(loss)	$ 795,340	$ (7,634,128)	$ (6,838,788)
Adjustments to reconcile operating income/(loss) to net cash:			
Depreciation and amortization	886,536	-	886,536
Changes in assets and liabilities:			
(Increase)/decrease in accounts and accrued receivables	(3,318)	(245,511)	(248,829)
(Increase)/decrease in due from CIT	(380,000)	380,000	-
(Increase)/decrease in prepaid expenses and deposits	-	22,560	22,560
Increase/(decrease) in accounts payable and accrued expenses	(57,432)	(14,633)	(72,065)
Increase/(decrease) in security deposits	(7,030)	-	(7,030)
Increase/(decrease) in grants payable	-	(243,410)	(243,410)
Increase/(decrease) in compensated absences	-	27,985	27,985
Increase/(decrease) in due to Commonwealth of Virginia	142,502	-	142,502
Net cash provided/(used) by operating activities	$ 1,376,598	$ (7,707,137)	$ (6,330,539)

INNOVATIVE TECHNOLOGY AUTHORITY AND
CENTER FOR INNOVATIVE TECHNOLOGY
SCHEDULE OF ANALYSIS OF FUND BALANCES
For the Year Ended June 30, 2007

	ITA	CIT	Total
Undesignated:			
Beginning balance	$ 41,121	$ 4,815,315	$ 4,856,436
Change in net assets	262,199	(974,188)	(711,989)
Depreciation	877,571	-	877,571
Assets aquired for CIT operations	(19,000)	-	(19,000)
Interest income designated to building	(25,604)	-	(25,604)
Transfer net profit from building operations to designated to building	(292,830)	-	(292,830)
Change in restricted - GAP BioLife Fund	-	(500,000)	(500,000)
Unamortized bond issuance expense	(61,257)	-	(61,257)
Bond payment	(790,000)	-	(790,000)
Bank fees on building reserve	366	-	366
Change in designated to reserve for COVITS	-	213,114	213,114
Transfer from designated to reserve for COVITS	-	(140,246)	(140,246)
Total undesignated	(7,434)	3,413,995	3,406,561
Designated to reserve for COVITS :			
Beginning balance	-	72,868	72,868
Fiscal year 2007 revenue	-	600,685	600,685
Fiscal year 2007 expenses	-	(813,799)	(813,799)
Transfer from undesignated fund	-	140,246	140,246
Total designated to reserve for COVITS	-	-	-
Restricted - GAP BioLife Fund:			
Beginning balance	-	-	-
Grant from Johnson & Johnson Services, Inc.	-	250,000	250,000
Matching funds from CIT	-	250,000	250,000
Total restricted for GAP Bio Life Fund	-	500,000	500,000
Investment in capital assets:			
Beginning balance	17,240,510	-	17,240,510
Purchases for CIT operations	19,000	-	19,000
Purchases for building	292,549	-	292,549
Depreciation	(877,571)	-	(877,571)
Unamortized bond issuance expense	61,257	-	61,257
Bond payment	790,000	-	790,000
Total investment in capital assets	17,525,745	-	17,525,745
Designated to building:			
Beginning balance	1,498,717	-	1,498,717
Transfer net profit from building operations to designated to building	292,830	-	292,830
Interest income designated to building	25,604	-	25,604
Expenses for the building	(292,549)	-	(292,549)
Bank fees on building reserve	(366)	-	(366)
Total designated to building	1,524,236	-	1,524,236
Total fund balance	$ 19,042,547	$ 3,913,995	$ 22,956,542

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

December 3, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Directors
Innovative Technology Authority and
Center for Innovative Technology

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the Innovative Technology Authority, a component unit of the Commonwealth of Virginia, and its blended component unit, the Center for Innovative Technology, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America

The Management's Discussion and Analysis, on pages one through three is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Innovative Technology Authority. The combining statements and Schedule of Analysis of Fund Balances are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining statements and Schedule of Analysis of Fund Balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, and the Innovative Technology Authority and Center for Innovative Technology Board, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on December 4, 2007.

AUDITOR OF PUBLIC ACCOUNTS

INNOVATIVE TECHNOLOGY AUTHORITY

AND

CENTER FOR INNOVATIVE TECHNOLOGY

BOARD OF DIRECTORS
As of June 30, 2007

Maloy I. Jones, Chairman

Daniel Bannister	Suzanne H. King
Kimberly B. Chapman	Daniel LaVista
Aneesh P. Chopra	Alan Merten
Evan L. Curbeam	Carolyn Meyers
Patrick O. Gottschalk	Thomas R. Morris
Rakesh C. Gupta	Roderick Powell
Rodney P. Hunt	Charles W. Steger

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Peter J. Jobse, President and CEO, CIT

Linda E. Gentry, Treasurer and Secretary, ITA
Chief Financial Officer and Secretary, CIT